



VAT Update GCC
Healthcare Services

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The provision of Healthcare services (including the supply of medication) is widely considered as one of the most fundamental functions of government. This realization is equally true in the GCC where the public Health sector contributes a significant portion of Healthcare services to the general public. Private Healthcare providers also play an important role by supplying treatments, preventative and elective Healthcare services. The separate classification of different services within the Healthcare sector was never a concern within the GCC States. However, with the introduction of VAT the position has become more complex as different VAT treatment will apply to different categories of Healthcare services.

What are Healthcare Services?

The term Healthcare Service is not defined in the Common VAT Agreement (CVA) but it is defined in the KSA Health Law as: *“Preventive, therapeutic and rehabilitative services concerned with the health of the individual and the community at the primary, secondary and specialist levels”*.

Equally, it is defined in Article 41 of the UAE Federal Decree Law as: *“...any service supplied that is generally accepted in the medical profession as being necessary for the treatment of the recipient of the supply, including preventive treatment and this supply is made by a Ministry of Health licensed healthcare body or institution, doctor, nurse, technician, dentist, or pharmacy and it is related to the wellbeing of a human being”*.

Healthcare services for the purposes of VAT, also includes the dispensation of qualifying medication and the use of qualifying medical equipment to administer healthcare to individuals.

The KSA VAT Guidelines define qualifying medicines and medical equipment as: *“Medicines and medical goods shall be considered Qualifying Medicines and Qualifying Medical Goods respectively in accordance with such classifications as may be issued by the Ministry of Health or any other competent authority from time to time”*. Similarly, in the UAE these are medications and equipment registered or approved by the Ministry of Health and Prevention.

Examples of Qualifying Medical Devices are:

- Noras Head Coil 1.5T / 63.6 MHz ((Bottom Array Coil)) Siemens;
- Infinity Acute Care System Workstation Neonatal Care

Examples of Qualifying Medicines are:

- Lidocaine Hydrochloride;
- Acetylcysteine;
- Captopril

What is the VAT liability of Healthcare Services in the GCC?

VAT is chargeable on any taxable supplies made by a taxable person in the course of carrying on an economic activity:

- In the KSA, where a Government Healthcare Provider (GHP) supplies Healthcare services as part of its statutory function, this supply is not considered an economic activity and is outside the scope of VAT and as a result there will be no requirement to register for VAT unless the GHP carries out taxable activities outside its statutory function;
- In KSA, Private Healthcare services are chargeable to VAT at a rate of 5% to non-Saudi Nationals and 0% to Saudi Nationals. Qualifying medicines and medical devices are taxable at 0% only if: they are itemized on the invoice, not of a trivial value and not artificially separated from the main supply;
- In the UAE, Supply of preventive and basic healthcare Services and related Goods and Services are zero rated. Medicines and medical equipment approved by a Cabinet decision is also zero rated, while medicine and medical equipment not registered or approved by the Ministry of Health as well as Healthcare services that are not treatment or preventative are taxable at 5%.

How will Healthcare Providers be affected?

- Compliance costs involved in getting internal systems configured & staff fully trained and ready for the introduction of VAT in Bahrain;
- The risk associated with the VAT treatment of composite and multiple supplies;
- Defining what supplies of healthcare, including equipment and medicines, are zero-rated and what is taxed at 5%;
- VAT liability of other services performed by medical staff such as separate supplies of medical reports, certificate, expert statements, and training;
- Distinction between VAT supplies of private and public healthcare;
- Cash-flow impact - net VAT repayment position and monthly VAT returns may be required;
- The challenge in distinguishing between the VAT liability of preventative/treatment and non-preventative/elective Healthcare;
- The extra effort required to ensure supplier invoices apply the correct VAT accounting for all purchases.

What should Healthcare Providers do now?

1. Establish a relationship with a firm of trusted VAT specialists;
2. Arrange an IT review of your accounting systems to ensure its compatibility with VAT accounting & VAT compliance requirements in Bahrain;
3. Review long term contracts with suppliers as there may be transitional & “grand-fathering” arrangements in the Bahrain legislation, especially where capital assets projects are concerned that has an element of continuous supply of services;
4. Have VAT expertise at hand to separately assist with determining the VAT liability of the company’s various supplies to ensure, VAT compliance as well as the avoidance of penalties being levied on the company by the tax authorities;
5. Monitor income streams to determine whether registration for VAT is mandatory.

Please note that the production of this document serves only as a high level guide to businesses operating in the KSA, UAE, and Bahrain and must not be taken as official VAT advice. The VAT treatment of an institution’s income is rarely straightforward and it is always beneficial to take professional advice. If you have concerns around the VAT treatment of your income and purchases streams it is prudent to engage with VAT specialists in order to protect yourselves from applying the wrong VAT treatment.

BDO has a global presence and is experienced in providing support in relation to technical VAT issues. If any of the points raised in this alert have implications for your business then we can provide assistance with:

- A review of the income streams to assess any potential VAT liability;
- VAT registration of businesses;
- Quantification, compilation and submission of VAT returns to the Tax Authorities;
- Negotiations with the Tax Authorities

Please contact any one of our VAT specialists who will be able to help you navigate the complexities of VAT.

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VAT is complex,
but you can address the challenges
and reduce disruption and cost to your business
with a pragmatic and comprehensive approach.

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